

# Minutes of the Meeting of the College Savings Program Board

Held in the State Treasurer's Conference Room, Fifth Floor  
1 South Pinckney Street  
Madison, Wisconsin

February 3, 2005  
9:00 a.m.

MEMBERS PRESENT: *Adamski, Johnson, Reid, Wegenke, Durcan, Oemichen, Voight, Wolff*

MEMBERS PRESENT BY CONFERENCE PHONE: *Darling*

MEMBERS ABSENT: *Plale, Clumpner*

OTHERS PRESENT: Marty Olle and Rich Janosik, EdVEST Program; Tom Petri of Sen. Darling's office; Sarah Henriksen, Drew Wineland and Andrew Owen of Wells Fargo; Terry Rhodes of LFB; Ron Jackson and Linda Schlissel of Evaluation Associates, Inc.

**I. Call to Order** – The meeting was called to order at approximately 9:08 a.m. by Board Chair *Darling*.

**II. Roll Call** – See above.

**III. Approval of Agenda** – *Oemichen* moved and *Wegenke* seconded approval of the agenda as posted and distributed. Motion passed by voice vote without objection.

**IV. Public Presentations** – None.

**V. Approval of Minutes** – *Oemichen* moved and *Wegenke* seconded a motion to approve the minutes of the December 16, 2004 meeting of the Board. Motion passed on a voice vote without objection.

## **VI. Administrative Reports**

**A. Board Chair Comments** -- *Darling* stated that this is an important day for the program, in that the board will be discussing program changes suggested by the new program manager, Wells Fargo. Some of these changes will be acted on at the board's next meeting in March, and some today. She applauded the board members' work on the Outreach Committee to increase participation among low and moderate income families saving for higher education.

**B. State Treasurer Comments** – *Voight* summarized the January 18 meeting of the Outreach Committee, which had generated lively discussion on how to help low and moderate income families participate in the EdVest program. Many people from different sectors came together to talk about ideas on how to encourage participation, and possibly use the contingency funds of the program to help in this

effort. He mentioned that he is having discussions with legislators regarding steps that might be taken to get these proposals going.

**C. Program Director Comments** --- *Olle* also discussed the Outreach Committee meeting, stating that the committee is looking at marketing efforts targeted to specific audiences, matching grants using individual development accounts or other mechanisms, and amending the current EdVest tax deduction to make it a refundable tax credit for low income families. The committee discussed the possibility of creating an endowment fund from the program's current contingency fund to generate an ongoing funding source for outreach activities. Others could be encouraged to contribute to the endowment. The committee will be working on a goal statement at a later meeting.

Wells Fargo has announced a name change to its family of funds to the Wells Fargo Advantage Funds when its merger with Strong is completed in several months.

American Express has announced the possible spin-off of its financial advisors and mutual funds to a separate entity.

The Legislative Joint Finance Committee has approved additional EdVest budget authority in the current fiscal year for Evaluation Associates, Inc.'s services, for legal expenses, audit cost increases, and fund accounting fees for the new investment options added last year.

Two legislative bills are pending that would affect EdVest – AB 31, which would expand the state tax deduction to cover all 529 programs for Wisconsin residents, and SB 53 that would fix the state tax deduction so that it could be taken by divorced parents contributing to an EdVest account for their children.

Recently, a number of other states have increased the maximum contribution allowed to their 529 programs. *Darling* and *Wegenke* suggested that Wisconsin look into doing this as well, possibly linking it to the annual College Board data update.

*Olle* reviewed the program revenue and expense data for the program that had been distributed before the meeting.

## **VII. Old Business**

There was no old business for board discussion or action.

## **VIII. New Business**

**A. Wells Fargo Year End Summary Program Report**— *Henriksen* distributed and reviewed the comprehensive annual program summary prepared by Strong/Wells Fargo. She highlighted program statistics for the board and reported that over \$960,000 was spent on marketing activities for the program in 2004 focusing on direct mail, print and TV advertising. Board members asked several questions about the data presented in the report. [Board Chair *Darling* left the meeting at this point.]

**B. Investment Performance Review** – *Jackson* and *Schlissel* of Evaluation Associates made a presentation explaining what their future role would be in assisting the board in making judgments about portfolio performance, peer group comparisons, and fee structure analysis. For EdVest, almost all the portfolios outperformed their benchmarks in 2004. The consultants responded to Board questions about the performance reports. *Schlissel* responded to a question about

removal of an investment option by stating that three calendar quarters of underperformance against its peer group would generally put an investment option on a watch list. It may stay on a watch list for up to a year, and then a decision would be made to retain or replace the investment option. This time frame might vary depending on the Board's discretion and how complicated it might be to change an investment manager. The Board discussed how it should disseminate information to the public about its review of performance. The consultant suggestion that the Board consider criterion for "watch list" inclusion was discussed by Board members.

### **C. Discussion and Review of EdVest Investment Options, Distribution, Portfolios and Fees**

Proposed changes to the EdVest investment portfolios -- *Henriksen* and *Owen* of Wells Fargo discussed proposed fund changes and allocation changes. The modifications are intended to help the existing portfolios perform closer to their benchmarks, increase the credit quality of the fixed income portfolios and get exposure to international stocks and small and mid-cap companies to increase diversification. The historical performance of the proposed changes would have outperformed the existing make-up of the portfolios. *Jackson* commented that EAI has reviewed the changes recommended by Wells Fargo and concurs that they will benefit the performance of the portfolios relative to their benchmarks. *Johnson* stated that he would like to see the program offer a low-cost index option in any of the investment categories that the portfolios are intended to cover. *Jackson* indicated that they have observed that a number of other state programs have been moving in this direction in the latter half of 2004, but cautioned that while they may be low-cost, they are likely to return median performance compared with the universe of actively managed funds.

Stable Value Funds -- *Owen* discussed accounting issues that have arisen nationwide with stable value funds in the past year. There is question about the proper way to value the underlying investments for stable value funds on a daily basis because the "wrapper insurance" is intended to maintain a constant net asset value. The Wells position is that the regulatory future of stable value is open to question, and mentioned difficulty in getting auditors PriceWaterhouseCoopers to sign off on last year's audit for the fund. Keeping a stable value product in the program adds a small level of risk because of these accounting uncertainties and from Wells point of view, there are alternatives. Wells suggests that if the program stays with stable value, that it move to Galliard as the manager of the fund for EdVest. As an alternative, the program could move to a money market or ultra-short term bond fund to replace the stable value option. *Adamski* added that another alternative would be to add a CD option to the program. He suggested that the board postpone action until the March meeting to allow for further investigation of that option. *Wolff* acknowledged the accounting issue with stable value funds at this time, but did not feel that there are any regulatory risks because the SEC does not regulate 529's. Rather, the issue is getting accountants to agree on a process of valuation. Other states have said they are going to continue their stable value options, which have been very popular with investors, until they see how the issue develops nationally. *Wolff* suggested that the board wait and see, as no one has suggested the fund be closed. *Owen* reminded the board that if the fund is to be closed out, the possible book-value loss on valuation of the portfolio, which Wells monitors from week to week, would have to be borne by the fund participants. It was most recently approximately \$140,000 negative. *Olle* said that he had talked to Rhode Island, Virginia, and Ohio in recent days, and they have decided to keep the stable value option in their programs. Alaska, on the other hand, has decided to

drop their stable value offering for the same reasons that Wells has raised and the potential accounting shortfall in valuation of the fund. *Wolff* suggested that it would be unlikely for a regulator to issue a fiat that stable value would have to be dropped, and asked about the necessity of a clean audit. He asked that the board be kept posted on developments in this area, and that the board could act quickly if need be. The board discussed the ramifications of changing the stable value investment to a money market fund or short-term bond fund.

Wisconsin Manager Portfolio -- *Owen* discussed a potential new investment option comprised of several Wisconsin-based managers. EAI commented that the portfolio recommended by Wells performed well, but the percentage of Wells Fargo funds in the portfolio is large, and asked whether the managers are actually Wisconsin-based. EAI also commented that an alternative proposal assembled by SIS includes good funds, but some are relatively small in size. *Wolff* commented that he prefers the SIS proposal, primarily because when Strong ran into trouble, popular demand suggested that investors wanted non-Strong investment in the program. The Wells proposal does not do that for him, nor could it be considered a "Wisconsin Manager" fund. *Jackson* stated that the Wells Fargo proposal does consistently give better historic results than the SIS portfolio recommendation. *Oemichen* warned the board not to use the "Wisconsin" manager fund in the title of the portfolio unless there is confidence that the individual making the investment decisions for the portfolio is located in the state. Otherwise, we would be misrepresenting the nature of the fund. Both Wells and EAI said they would look at a hybrid portfolio that would include more Wisconsin-based management firms in the offering.

*Owen* stated that the international and small/mid-cap funds are not recommended to be put into the program on a stand-alone basis, as they would not be appropriate investments for most individuals considering the program.

*Henriksen* discussed converting the existing Baird bond portfolio into the EdVest bond portfolio, due to low participation in the Baird portfolio. Baird would still be included in the Wisconsin managers portfolio under the realignment.

Modifications to the Age-Based Investment Option -- Wells recommends creating a new aggressive age-based option and a conservative age-based option, and renaming the existing age-based option as the moderate track. Also, they would split the final age band of the age-based tracks into two bands, one for 1-3 years prior to college and a new band for beneficiaries that are in college.

#### **D. Discussion and Review of EdVest and Tomorrow's Scholar Structural and Fee Changes**

Changes to Direct-Sold and Advisor-Sold Structure -- *Henriksen* reviewed Wells' suggestions for changes to the structure of the program. The first would be to convert all advisor-sold EdVest accounts into Tomorrow's Scholar accounts, and make EdVest an entirely direct-sold product going forward. This would be a major shift for the program, and advisors in Wisconsin as well as nationwide would only sell Tomorrow's Scholar going forward. Tomorrow's Scholar would be available to all advisors as opposed to the current structure which makes it available only through American Express. Several related changes will be discussed at the next board meeting, including adding other investment managers to the Tomorrow's Scholar investment options [besides Wells Fargo and AmEx] and "fine-tuning" the portfolio allocations and composition.

Fee Changes – The transition from Strong to Wells Fargo will allow expense ratios for all EdVest portfolios other than the Bond portfolio to be reduced between 5 and 12 basis points. The fees for the Bond portfolio will remain the same. The minimum automatic monthly investment can be reduced from \$25 to \$15, making it easier for low-income participants to make monthly contributions. Voight moved to reduce the minimum monthly investment from \$25 to \$15 for participants using auto-withdrawal or payroll deduction, effective July 1. Oemichen seconded the motion. Motioned carried by a unanimous voice vote.

Another major change in the program would be the discontinuance of the sale of “B” shares in the advisor-sold channel for both EdVest and Tomorrow’s Scholar. All selling agreements are being updated to reflect the changes to the program, and new brokers are being solicited to sign new selling agreements. Wolff moved, and Adamski seconded a motion to approve the discontinuation of the sale of B-class shares of the EdVest program. The motion passed by a unanimous voice vote. *[Note: This will be implemented in stages. Class B shares for all investment options will close to new accounts on 3/11/05. Current B shares account owners may continue to purchase B shares until 6/30/05. Existing Class B shares will continue to automatically convert to Class A shares eight years after purchase.]*

Timelines -- Henriksen suggested a timeline wherein all remaining proposed changes will be presented at the March meeting, including the Tomorrow’s Scholar changes, with implementation on or about July 1.

**E. Discussion of State Fees for EdVest and Tomorrow’s Scholar** – Olle requested that the discussion of the state fee structure be postponed until the next meeting in March. The board concurred with the request.

**IX. Announcements** — None

**X. Adjournment** -- Voight entertained a motion to adjourn the meeting. Wolff moved, and Wegenke seconded a motion to adjourn. It passed by voice vote and the meeting adjourned at approximately 12:52 p.m.